In December 1990, the FASB adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires the cost of postretirement benefits granted to employees to be accrued and recognized as expense over the period in which the employee renders service and becomes eligible to receive benefits.

The Company is required to adopt Statement No. 106 no later than January 1, 1993. Under Statement No. 106, the Company may immediately recognize the accumulated transition obligation or amortize the obligation over a period not to exceed the greater of the average remaining service period of active employees or 20 years. Management's preliminary estimate of the transition obligation on January 1, 1993 is approximately $600 before income taxes.

The Company has not yet finalized its plans on when to implement Statement No. 106, nor the manner in which the transition obligation will be recorded. Except for the manner in which the transition obligation is recorded, future expense levels for postretirement benefits are not expected to be materially different from that recorded in 1991.

D) DEBT MATURING WITHIN ONE YEAR - Debt maturing within one year is included as debt in the computation of debt ratios and consists of the following at December 31:

	Amounts			Weighted Average Interest Rates		
	1991	1990	1989	1991	1990	1989
Notes payable						
Bank loans . . .	$ -	$ 40.0	$ 37.0	-	8.5%	8.9%
Commercial paper	-	170.0	140.0	-	7.8%	8.5%
Parent (Ameritech)	301.5	-	-	5.1%	-	-
Long-term debt maturing within one year	134.1	37.1	51.2	-	-	-
Total . . .	$435.6	$247.1	$228.2			
Average notes payable outstanding during the year	$218.0	$161.3	$115.4	6.1%*	8.1%*	9.2%*
Maximum notes payable at any month end during the year . .	$301.5	$210.0	$177.0			

* Computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [*Fee Required*]

For the fiscal year ended December 31, 1991

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-6781

The Ohio Bell Telephone Company

An Ohio Corporation

I.R.S. Employer No. 34-0436390

45 Erieview Plaza, Cleveland, Ohio 44114
Telephone Number 216-822-9700

Securities registered pursuant to Section 12(b) of the Act: See attached Schedule A.
Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF AMERITECH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J (1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J (2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ✓ No_______

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's annual report to security holders for the fiscal year ended December 31, 1991 (Part II)

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as a part of the report:

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

Financial statements for certain owned corporations which are accounted for by the equity method are omitted pursuant to Rule 3.09 of Regulation S-X.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

Exhibit Number	
(3)a	Articles of Incorporation of the registrant as amended April 25, 1974. (Exhibit (3)a to Form 10-K for the fiscal year ended December 31, 1980, File No. 1-6781.)
(3)b	Regulations of the registrant as restated February 28, 1990. (Exhibit (3)b to Form 10-K for the fiscal year ended December 31, 1989, File No. 1-6781.)
(4)(i)	Close Corporation Agreement with Ameritech dated February 28, 1990. (Exhibit (4)(i) to Form 10-K for the fiscal year ended December 31, 1989, File No. 1-6781.)
(4)(iii)(A)	No instrument which defines the rights of holders of long-term debt of the registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
(10)(ii)(B)1	Reorganization and Divestiture Agreement among AT&T, Ameritech and Affiliates dated November 1, 1983. (Exhibit 10a to Form 10-K for 1983 for Ameritech, File No. 1-8612.)
(10)(ii)(B)2	Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements among AT&T, Bell System Operating Companies, Regional Holding Companies and Affiliates dated November 1, 1983. (Exhibit 10j to Form 10-K for 1983 for Ameritech, File No. 1-8612.)

*Incorporated herein by reference to the appropriate portions of the registrant's annual report to security holders for the fiscal year ended December 31, 1991. (See Part II.)

OHIO BELL ANNUAL REPORT 1991

Ohio Bell
AN AMERITECH COMPANY

(Dollars in millions)

Company had recorded a regulatory liability of $194.5 (reflected primarily in Other deferred credits) related to the reduction of deferred taxes resulting from the decrease in the statutory Federal income tax rate to 34% and deferred taxes provided on unamortized investment tax credits. These amounts will be amortized over the regulatory lives of the related depreciable assets concurrent with recovery in rates.

There were no amounts recorded in the Statement of Income and Reinvested Earnings related to the adoption of Statement No. 96. However, the accounting for and the impact on future net income of these adjustments will depend on the rate-making treatment authorized in future regulatory proceedings.

During 1992, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which will require the Company to change, by 1993, its accounting for income taxes from that required by Statement No. 96. The impact on the Company's financial statements has not been determined.

(c) Pensions and Other Employee Benefit Plans

Ameritech maintains noncontributory defined pension and death benefit plans covering substantially all of the Company's management and nonmanagement employees. The pension benefit formula used in the determination of pension cost is based on the average compensation earned during the five highest consecutive years of the last ten years of employment for the management plan and a flat dollar amount per year of service for the nonmanagement plan. Pension expense is allocated to subsidiaries based upon the percentage of compensation for the management plan and per employee for the nonmanagement plan. The Company's funding policy is to contribute annually an amount up to the maximum amount that can be deducted for Federal income tax purposes. The following data provides information on the Company's expense for the Ameritech plans:

	1991	*1990*	*1989*
Pension (credit) expense	**($15.8)**	($9.8)	$4.1
Pension (credit) expense as a percent of salaries and wages	**(3.2%)**	(2.0%)	.8%

Pension (credit) expense was determined using the projected unit credit actuarial method in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The decline in pension expense over the last two years is primarily attributable to favorable investment performance and the funded status of the plans.

Certain disclosures are required to be made of the components of pension costs and the funded status of the plans, including the actuarial present value of accumulated plan benefits, accumulated projected benefit obligation and the fair value of plan assets. Such disclosures are not presented for the Company because the structure of the Ameritech plans does not permit the plans' data to be readily disaggregated. As of December 31, 1991, the fair value of plan assets available for plan benefits exceeded the projected benefit obligation (calculated using a discount rate of 6.3%).

The assets of the Ameritech plans consist principally of debt and equity securities, fixed income securities and real estate. The assumed long-term rate of return on plan assets used in determining pension cost for 1991 was 7.25%.

During 1991, the Company offered most of its management employees a voluntary early retirement and separation program. The net cost of this program, including termination benefits and a settlement gain from the plans, was $4.2.

In addition to providing pension benefits, the Company provides certain health care and group life insurance benefits for all eligible active and retired employees. Prior to 1988, health care benefit costs were expensed as incurred. In 1988, the Company began expensing an actuarially determined amount for postretirement health care benefits for active employees. Contributions are made to a voluntary employee benefit association (VEBA) trust fund. The amount expensed and funded for postretirement health care benefits for active employees during 1991, 1990 and 1989 were $17.9, $21.1 and $9.0, respectively.

Health care benefits paid for retired employees during 1991, 1990 and 1989, net of refunds received from American Telephone and Telegraph Company ("AT&T") for pre-divestiture retirees were $28.1, $26.2 and $21.1, respectively. Health care benefits paid for active employees for 1991, 1990 and 1989 were $47.9, $46.6 and $40.1, respectively.

The cost of group life insurance benefits is actuarially determined and recognized as expense over the employees' active working lives. Group life insurance benefits paid for active and retired employees during 1991, 1990 and 1989 were $1.0, $1.0 and $.9, respectively.

As of December 31, 1991, the Company had approximately 9,068 retirees and 12,009 active employees eligible to receive health care and group life insurance benefits.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("Statement No. 106"). Statement No. 106 requires the cost of postretirement benefits granted to employees to be accrued and recognized as expense over the period in which the employee renders service and becomes eligible to receive benefits.

The Company is required to adopt Statement No. 106 no later than January 1, 1993. Under Statement No. 106, the Company may immediately recognize the accumulated transition obligation or amortize the obligation over a period not to exceed the greater of the average remaining service period of active employees or 20 years. Management's preliminary estimate of the transition obligation on January 1, 1993, is approximately $450 before income taxes.

The Company has not finalized its plans on when to implement Statement No. 106, nor the manner in which the transition obligation will be recorded. Except for the manner in which the transition obligation is recorded, future expense levels for postretirement benefits are not expected to be materially different from that recorded in 1991.

(d) Debt Maturing Within One Year

Debt maturing within one year is included as debt in the computation of debt ratios and consists of the following at December 31:

	Amounts			*Weighted Average Interest Rates*		
	1991	*1990*	*1989*	***1991***	*1990*	*1989*
Notes payable						
Ameritech®	**$ 42.6**	—	—	**5.1%**	—	—
Commercial paper	**0.0**	$38.0	—	**—**	8.5%	—
Other*	**10.8**	10.8	$ 7.5	**3.9%**	6.5%	7.7%
Long-term debt maturing within one year	**.7**	1.5	7.4			
Total	**$ 54.1**	$50.3	$14.9			
Average notes payable outstanding during the year	**$ 56.0**	$25.5	$ .7	**6.2%***	8.1%*	8.0%*
Maximum notes payable at any month end during the year	**$115.1**	$62.3	$ 7.5			

® *During 1991 Ameritech consolidated the short-term financing of its subsidiaries at corporate and now provides the Company financing and investing services at market rates. See note to financial statements on short-term financing arrangements.*

**Notes payable — Other at December 31, 1991, 1990 and 1989 consisted of funds related to an interim intrastate pooling arrangement for which the Company acted as administrator as directed by The Public Utilities Commission of Ohio. These amounts are stated net of temporary cash investments of the portion of such funds not used by the Company for current operations.*

**Computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.*

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1991

( ) Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission file number 1-6589

WISCONSIN BELL, INC.

A Wisconsin Corporation	I.R.S. Employer No. 39-0716650

722 North Broadway, Milwaukee, Wisconsin 53202
Telephone Number 414 549-7102

Securities registered pursuant to Section 12(b) of the Act: See attached Schedule A.

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF AMERITECH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ✓ No ___

(C) PENSIONS AND OTHER EMPLOYEE BENEFIT PLANS - Ameritech maintains noncontributory defined pension and death benefit plans covering substantially all of the Company's management and nonmanagement employees. The pension benefit formula used in the determination of pension cost is based on the average compensation earned during the five highest consecutive years of the last ten years of employment for the management plan and a flat dollar amount per year of service for the nonmanagement plan. Pension (credit) expense is allocated to subsidiaries based upon the percentage of compensation for the management plan and per employee for the nonmanagement plan. The Company's funding policy is to contribute annually an amount up to the maximum amount that can be deducted for federal income tax purposes. The following data provides information on the Company's expense for the Ameritech plans:

	Year Ended December 31,		
	1991	1990	1989
Pension (credit) expense	$(7.3)	$(3.9)	$3.9
Current year (credit) expense as a percentage of salaries and wages	(3.0%)	(1.6%)	1.6%

Pension (credit) expense was determined using the projected unit credit actuarial method in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The declines in pension expense over the last two years are primarily attributable to favorable investment performance and the funded status of the plans.

Certain disclosures are required to be made of the components of pension costs and the funded status of the plans, including the actuarial present value of accumulated plan benefits, accumulated projected benefit obligation and the fair value of plan assets. Such disclosures are not presented for the Company because the structure of the Ameritech plans does not permit the plans' data to be readily disaggregated. As of December 31, 1991, the fair value of plan assets available for plan benefits exceeded the projected benefit obligation (calculated using a discount rate of 6.3% percent).

The assets of the Ameritech plans consist principally of debt and equity securities, fixed income securities and real estate. The assumed long-term rate of return on plan assets used in determining pension cost for 1991 was 7.25% percent.

During 1991, the Company offered most of its management employees an early retirement program. The net cost of this program, including termination benefits and a settlement gain from the pension plan, was $0.9 million.

In addition to providing pension benefits, the Company provides certain health care and group life insurance benefits for all eligible active and retired employees. Prior to 1988, health care benefit costs were expensed as incurred. In 1988, the Company began expensing an actuarially determined amount for postretirement health care benefits. Contributions are made to a voluntary employee benefit association ("VEBA") trust fund. The amount expensed and funded for retiree health care benefits for active employees during 1991, 1990 and 1989 were \$9.3, \$10.3 and \$4.5, respectively.

Health care benefits paid for retired employees during 1991, 1990 and 1989, net of refunds were \$11.0, \$9.8 and \$8.3 million, respectively. Health care benefits paid for active employees for 1991, 1990 and 1989 were \$19.6, \$19.9 and \$17.8, respectively.

The cost of group life insurance benefits is actuarially determined and recognized as expense over the employees' active working lives. Group life insurance benefits paid for active and retired employees during 1991, 1990 and 1989 were \$.3, \$.3 and \$.2, respectively.

As of December 31, 1991, the Company had approximately 5,104 retirees and 6,106 active employees eligible to receive health care and group life insurance benefits.

In December 1990, the FASB adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("Statement No. 106"). Statement No. 106 requires the cost of postretirement benefits granted to employees to be accrued and recognized as expense over the period in which the employee renders service and becomes eligible to receive benefits.

The Company is required to adopt Statement No. 106 no later than January 1, 1993. Under Statement No. 106, the Company may immediately recognize the accumulated transition obligation or amortize the obligation over a period not to exceed the greater of the average remaining service period of active employees or 20 years. Management's preliminary estimate of the transition obligation on January 1, 1993 is approximately \$225 before income taxes.

The Company has not yet finalized its plans on when to implement Statement No. 106 nor the manner in which the transition obligation will be recorded. Except for the manner in which the transition obligation is recorded, future expense levels for postretirement benefits are not expected to be materially different from that recorded in 1991.

Exhibit 6

UNITED STATES TELEPHONE ASSOCIATION

Analysis of Impact of FAS 106 Costs on GNP-PI

Godwins

February, 1992

UNITED STATES TELEPHONE ASSOCIATION

Analysis of Impact of SFAS 106 Costs on GNP-PI

February 18, 1992

Godwins

BACKGROUND

Godwins has been engaged by the United States Telephone Association to perform an analysis of the impact of SFAS 106 on the GNP-PI. In particular, Godwins was asked to determine the extent to which the price cap mechanism utilized by the FCC will reflect the impact of SFAS 106 and will enable Local Exchange Carriers to recover their increase in total operating costs incurred due to their adoption of the new accounting standard.

This report describes the results of that analysis and provides detailed documentation of the data, methods, and assumptions utilized in the study.

Respectfully submitted,

Peter J. Neuwirth, F.S.A., M.A.A.A.

Andrew B. Abel, Ph.D.

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

The purpose of this study is to determine what percentage of the additional costs incurred by Local Exchange Carriers subject to Federal Price Cap regulations (hereinafter referred to as "Price Cap LECs") as a result of the Financial Accounting Standards Board's Statement No. 106 (SFAS 106) will be reflected in the GNP Price Index (GNP-PI) and what percentage will not be so reflected.

This study finds that ultimately the increase in GNP-PI caused by SFAS 106 (.0124%) will provide for recovery of 0.7% of the additional costs incurred by Price Cap LECs. Other macroeconomic factors, principally an eventual adjustment of the national wage rate, account for recovery of an additional 14.5% of the additional costs incurred by Price Cap LECs, leaving 84.8% of these additional costs unrecovered.

This study is presented in two stages: an Actuarial Analysis followed by a Macroeconomic Analysis. The Actuarial Analysis uses demographic, economic and benefit program data collected from each Price Cap LEC to construct a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole. This analysis finds that the impact of SFAS 106 on the costs of the average employer in the economy is only 28.3% of the corresponding impact on TELCO. The Macroeconomic Analysis which analyzes the impact of SFAS 106 on the economy as a whole finds that only 2.3% of the average employer's additional costs resulting from SFAS 106 is passed through to the GNP-PI.

The table on the following page summarizes how the key results of the study are combined to derive the unrecovered proportion of the Price Cap LECs' SFAS 106 costs.

Effects of SFAS 106 on TELCO's Costs

(A)	Impact on national average costs relative to TELCO's costs (from the Actuarial Analysis)	28.3%
(B)	Proportion of increase in national average costs passed through to GNP-PI (from the Macroeconomic Analysis)	2.3%
(C)	Proportion of TELCO's SFAS 106 cost increase reflected in GNP-PI (item (A) x item (B))	0.7%
(D)	Proportion of TELCO's SFAS 106 cost increase offset by other macroeconomic adjustments, including the reduction of the wage rate (from the Macroeconomic Analysis)	14.5%
(E)	Proportion of TELCO's SFAS 106 cost increase unrecovered (100% - item (C) - item (D))	84.8%

Actuarial Analysis

Even if one were to take a conservative approach and assume that all SFAS 106 costs were passed through directly and completely to price increases and thus into the GNP-PI, 100% of each Price Cap LEC's SFAS 106 costs would be reflected in the GNP-PI, only if the following were true:

- The benefits provided by the Price Cap LEC to its employees were at the same level as those provided to all other employees in the economy.
- The benefits provided by the Price Cap LEC gave rise to the same relative increase in total costs as for other employers when SFAS 106 is applied.

Because neither of the above statements is true, the percentage of each Price Cap LEC's SFAS 106 costs that will be reflected in the GNP-PI is far less than 100%. Indeed, we have determined that ignoring macroeconomic effects, only 28.3% of the additional costs incurred by the average Price Cap LEC due to SFAS 106 would be reflected in the GNP-PI. This result was derived by the following steps:

° By utilizing demographic, economic, and benefit program data collected from each Price Cap LEC we constructed a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole.

° By utilizing a data base of plan provisions for retiree medical plans sponsored by 830 private sector employers (covering 19 million employees) and our Benefit Level Indicator ("BLI") methodology, we determined how TELCO's program compared to a "national average" benefit program.

° We adjusted this comparative benefit analysis to reflect specific factors that would cause similar benefit programs to generate different levels of SFAS 106 cost. In particular, we adjusted for:

  - differences in demography (average age, service, etc.)
  - differences in withdrawal and retirement patterns
  - differences in the number and impact of current retirees
  - differences in the extent of current pre-funding of benefits conducted by TELCO and that of others.

° We then took account of the very large group of workers in the national economy who are not covered by any post-retirement program or are covered by a program that is not affected by the FASB's rules. Their employers will, by definition, incur no SFAS 106 cost for them.

° We made two final adjustments to the comparative analysis due to economic factors. In particular, we:

- made an adjustment for differences between per unit labor costs for TELCO and for other employers, and

- made an adjustment for differences in the percentage of total output represented by labor costs for TELCO and for other employers.

Putting together all of these factors, we find that the impact of SFAS 106 on the costs of the average employer in the economy (including employers that do not offer post-retirement health benefits and/or are not affected by FASB's rules) is only 28.3% of the corresponding impact on TELCO. In addition, the Actuarial Analysis finds that SFAS 106 directly increases labor costs by 3% for the average employer offering post-retirement health benefits covered by SFAS 106. This 3% figure is an important input to the Macroeconomic Analysis.

Macroeconomic Analysis

The purpose of the Macroeconomic Analysis is to determine the extent to which the additional costs resulting from SFAS 106 would be passed through to an increase in GNP-PI. The Macroeconomic Analysis utilizes a macroeconomic model developed for Godwins by Professor Andrew Abel of the Wharton School of the University of Pennsylvania to address this question. The Macroeconomic Analysis finds that only 2.3% of direct SFAS 106 costs of the average employer in the economy are passed through to the GNP-PI. In addition, as a result of SFAS 106 the average wage rate in the economy would be 0.93% lower than it would have been in the absence of SFAS 106.

Effects of SFAS 106 on TELCO's Costs

As noted, the ultimate purpose of the study is to determine the extent to which GNP-PI reflects the additional costs incurred by the average Price Cap LEC (i.e. TELCO) as a result of SFAS 106. The table shown on page 2 summarizes our findings. Item (A) summarizes the Actuarial Analysis which finds that costs of the average company in the economy increase by only 28.3% as much as TELCO's costs increase as a result of SFAS 106. Because only 2.3% of the average increase in costs is passed through to the GNP-PI (item (B)), only 0.7% (item (C), 2.3% x 28.3%) of TELCO's additional costs resulting from SFAS 106 are reflected in GNP-PI. Thus, it would appear that 99.3% of TELCO's additional costs are left unrecovered. However, the Macroeconomic Analysis finds that the national wage rate would eventually be 0.93% lower than it would have been in the absence of SFAS 106. If TELCO were able to benefit from a similar reduction in its wage rate, such a reduction would recover an additional 14.5% of TELCO's direct SFAS 106 costs (item (D)). Taking account of the 0.7% recovery due to GNP-PI and the eventual 14.5% recovery due to the adjustment of the wage rate leaves 84.8% of TELCO's direct SFAS 106 costs unrecovered (item (E)).

II. DEVELOPMENT AND SUMMARY OF RESULTS

We wish to establish what percentage of the average Price Cap LEC's SFAS 106 costs will be reflected in the GNP-PI and hence what percentage will not be so reflected.

We begin with an actuarial analysis which proceeds in two steps. The first step in the actuarial analysis is to construct a composite company which accurately reflects the characteristics and benefit plans of the average Price Cap LEC. The second step is to determine the impact of SFAS 106 on this composite company relative to the impact of SFAS 106 on other employers in the GNP on the assumption that all additional costs are passed on completely into the GNP-PI. Following the actuarial analysis is a macroeconomic analysis to determine the extent to which the additional costs will, in fact, translate into higher prices and, therefore, affect the GNP-PI.

Construction of Composite Company ("TELCO")

Actuarial, benefit, economic and demographic data were collected on eleven Price Cap LECs. Data included was for total Telephone Operations consistent with amounts included on the 1990 ARMIS 43-02 for each Company. These data were then combined, treating each Price Cap LEC as if it were a division of the larger combined company. The characteristics of this composite company ("TELCO") are as follows:

Number of Active employees	613,193
Number of Retired employees:	294,482
1990 Average compensation per employee:	$38,533
1990 Total Revenue (in millions):	$82,512.9
1990 Total Value Added (in millions):	$61,338.4
Average Per Capita Claims Cost:	$3,075
Average Age of Actives:	41.6
Average Service of Actives:	16.6

Impact of SFAS 106 on the Average Price Cap LEC Relative to its Impact on All Employers in the GNP

There are 95.8 million private sector employees and 18.6 million public sector employees in 'GNP', all of whom (and their dependents) may incur medical charges in retirement. Public sector employers, however, will not record SFAS 106 expense even where the entity sponsors a post-retirement medical plan (public sector employers are not subject to FASB rules).

Of the private sector employees, 30.7 million are eligible to have a proportion of their charges in retirement met by their employer's medical plan (and which plan is subject to SFAS 106), the actual proportion depending on the detailed provisions of their employer's plan(s). It is this anticipated employer cost for those employees that is reflected in SFAS 106 costs. The proportion of the charges met is an effective measure of the overall level of benefit provided by a given plan. We will refer to it as the Benefit Level Indicator ("BLI"). We must establish the average proportion of covered employees' charges that will be met collectively by their employers - the GNP BLI.

Separately we will calculate the average proportion of charges met by the average Price Cap LEC - the TELCO BLI.

All other factors being equal (which they are not), the percentage of TELCO's SFAS 106 costs that would be reflected in the GNP-PI would be represented by the following ratio:

$$\text{BLI Ratio} = \frac{\text{GNP BLI}}{\text{TELCO BLI}} = \frac{\text{Benefit Level Indicator for the average employer in the GNP}}{\text{Benefit Level Indicator for TELCO}}$$

However, this ratio requires a number of adjustments:

- Adjustment for differences in demography which will affect the SFAS 106 impact of a given program (Demographic Adjustment).

- Adjustment for the differing impact on SFAS 106 costs of current retirees at TELCO compared with other employers (Current Retiree Adjustment).

- Adjustment for any differences in the extent to which TELCO is pre-funding its post-retirement benefits compared to other employers (Pre-Funding Adjustment).

- Adjustment for employees not covered by post-retirement medical programs or covered by programs for which SFAS 106 will not apply (Non-Covered Employees Adjustment).

- Adjustment for differences between per unit labor costs for TELCO and for other employers (Per Unit Labor Cost Adjustment).

- Adjustment for differences in the percentage of total output represented by labor costs for TELCO and for other employers (Labor Cost Percentage Adjustment).

Utilizing the data, methods, and assumptions described in Section III, we have determined the following values:

(1) GNP BLI = .2568

(2) TELCO BLI = .4390

(3) BLI Ratio = .2568 ÷ .4390 = .5850

(4) Demographic Adjustment = .5438

(5) Current Retiree Adjustment = .9287

(6) Pre-Funding Adjustment = 1.313

(7) Non-Covered Employees Adjustment = .2684

(8) Per Unit Labor Cost Adjustment = 1.3062

(9) Labor Cost Percentage Adjustment = 2.0832

(10) SFAS 106 Cost Increase Ratio = BLI Ratio x (4) x (5) x (6) x (7) x (8) x (9) = <u>.2833</u>

The SFAS 106 Cost Increase Ratio can be interpreted as meaning that, at most, only 28.3% of the additional cost incurred by TELCO due to SFAS 106 will find its way into the GNP-PI because the average employer in the GNP will experience only 28.3% of the cost increase that will hit TELCO.

<u>Extent to which Impact of SFAS 106 on All Employers in GNP Translates into an Increase in the GNP-PI</u>

The effect of SFAS 106 on the GNP-PI is calculated using a macroeconomic model that has two sectors. In sector 1 employers do not offer post-retirement health benefits, and in sector 2 employers do offer post-retirement health benefits. The macroeconomic model treats the introduction of SFAS 106 as a direct increase in the cost of labor facing employers in sector 2. The baseline calculations using the model calculate the impact of SFAS 106 on the GNP-PI using the following information:

(1) sector 2 accounts for 32% of private sector employment;

(2) labor costs account for 64% of total costs in sector 1 and in sector 2; and

(3) SFAS 106 directly increases labor costs by 3% in sector 2.

Based on these inputs, numerical solution of the macroeconomic model indicates that SFAS 106 will increase the private sector price index by 0.0138%.

To put this result in perspective we calculate a back-of-the-envelope estimate of the effect of SFAS 106 on the private sector price index as follows: a 3% increase in labor costs raises total costs and prices in sector 2 by 1.92% (64%

share of labor costs in total costs x 3% increase in labor costs) and thus raises the private sector price index by 0.614% (1.92% increase in price in sector 2 x 0.32 share of sector 2 in private sector GNP). Thus, if all direct costs were completely passed through in prices, and if there were no change in the amount of labor employed and output produced by each employer, the private sector price index would increase by 0.614%. However, taking account of the impact of labor costs on the demand for labor, and the impact of price changes on the demand for goods, the macroeconomic model finds that the private sector price index increases by only 0.0138%. We define the "passthrough coefficient" as the increase in the price index according to the macroeconomic model divided by the back-of-the-envelope price increase. In the baseline calculation, the passthrough coefficient is 0.0225 (0.0138% ÷ 0.614%). The passthrough coefficient can be thought of as the percentage of national SFAS 106 costs that will actually be reflected in the private sector price index.

The GNP-PI covers prices of government sector production as well as prices of private sector production, with the government sector accounting for 10.6% of GNP and the private sector accounting for 89.4% of GNP. Because SFAS 106 does not apply to the government sector, the government component of the GNP-PI will not be affected by SFAS 106. Therefore the increase in the GNP-PI equals 89.4% of the increase in the private sector price index. This factor of 89.4% applies both to the back-of-the-envelope price increase and to the price increase calculated by the macroeconomic model. Thus, the back-of-the-envelope increase in the GNP-PI is 0.549% (0.894 x 0.614%) and the increase in the GNP-PI according to the macroeconomic model is 0.0124% (0.894 x 0.0138%). The passthrough coefficient is 0.0225 (0.0124% ÷ 0.549%) which is identical to the passthrough coefficient for the private sector price index.

Resulting Impact of SFAS 106 on TELCO Relative to its Overall Impact on the GNP-PI

As noted above, the average employer in the GNP will experience only 28.3% of the cost increase that TELCO will experience due to SFAS 106. Furthermore, we have seen that only 2.3% of the cost increase experienced by all employers in the GNP will be passed through to the GNP-PI. From the interaction of these factors we are able to conclude that only 0.7% of TELCO's SFAS 106 costs will be reflected in the GNP-PI and that 99.3% of these additional costs will not be reflected in this price index.

Additional Macroeconomic Effect of SFAS 106

In addition to the result reported above our macroeconomic model indicates that, in response to the impact of SFAS 106, the wage rate in the national economy will, over time, reduce in relative terms by 0.93% (i.e., relative to what it would have been in the absence of SFAS 106). To the extent that TELCO could also benefit from a relative reduction in its wage rate this would help to offset its increase in costs due to SFAS 106. If TELCO were able to achieve the full reduction of 0.93% this would finance 14.5% of its additional SFAS 106 costs. As noted, this wage rate reduction reflects the ultimate effect of SFAS 106 and would not necessarily fully occur in 1993 when SFAS 106 becomes effective.

Thus the combined effect of the impact of SFAS 106 on the GNP-PI and on the wage rate would still leave 84.8% of TELCO's additional SFAS 106 costs unrecovered.

III. DETAILED DESCRIPTION OF ANALYSIS

Impact of SFAS 106 on the Average Price Cap LEC Relative to its Impact on All Employers in the GNP

This section of our report is a re-iteration of Section II but with considerably more detail.

Construction of Composite Company ("TELCO")

As noted earlier, eleven Price Cap LECs submitted data for this study. Each firm informed us of its number of active employees and their average ages and average service, and of the number of its retirees covered by employer subsidized Medical Plans. We were also provided detailed descriptions of the Medical Plans for Retired Employees and of the results of actuarial studies of the impact of SFAS 106 on expensing for these Plans.

Our data included a distribution by quinquenial age and service cells for 125,000 active employees, and we used the shape of this distribution for the valuations needed for this report. The distribution was shifted as required, to fit the known average age and average service for all of the Price Cap LECs. A census was constructed from the adjusted distribution, which census represents the typical Price Cap LEC.

A Benefit Level Indicator was determined for each Plan. As noted earlier, this Benefit Level Indicator measures the relative value of individual plans. The methodology for calculating the Benefit Level Indicator for a given retiree medical plan is discussed in detail beginning on page 12. The Indicators were averaged and a Plan with the average Benefit Level Indicator was used for this study. As expected, the actuarial assumptions used for the calculation of the impact of SFAS 106 differed from study to study.